

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division  
Public Programs Branch

RESOLUTION T-17058  
August 24, 2006

R E S O L U T I O N

**Resolution T-17058.** Resolution to Resolve Materials Issues Related to Verizon California Inc.'s (U-1002-C) Permanent California High Cost Fund-B (CHCF-B) Surcredit, Pursuant to Resolution T-17009, Issued and Adopted on July 20, 2006.

---

SUMMARY

On October 29, 2001, Verizon California Inc. (Verizon)<sup>1</sup> filed Advice Letter (AL) No. 9908 to make its provisional California High Cost Fund-B (CHCF-B) surcredit permanent. On July 20, 2006, Resolution T-17009 was issued (1) approving Verizon's permanent surcredit of 3.38% to apply on all intrastate billings, except for certain services,<sup>2</sup> commencing September 1, 2006 and continuing thereafter; and (2) requiring the Commission to finalize and resolve material issues related to Verizon's permanent surcredit issues in accordance with D.98-09-039.

This resolution finalizes the material issues and orders Verizon to implement an incremental permanent surcredit of 0.71% for one year to adjust the provisional permanent CHCF-B surcredit on all of Verizon intrastate customer billings, except certain services, commencing October 1, 2006 and ending on the last day of the 12-month period. The 0.71% incremental permanent surcredit will be in addition to the 3.38% permanent surcredit adopted in Resolution T-17009.

---

<sup>1</sup>Verizon is formerly the merged GTE California Inc. and Contel Telephone Company.

<sup>2</sup> Certain services refer to residential basic service, coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts, ULTS access lines, installation, billing, and local calls under ULTS allowance, and directory advertising.

DRAFT

**BACKGROUND**

A. Decision (D.) 96-10-066 –Rulemaking on the Commission’s Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission’s Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021)

In D.96-10-066, the Commission established the CHCF-B program to provide a universal service subsidy to Verizon and the other incumbent local exchange carriers (ILECs)<sup>3</sup> for providing basic local telephone service to residential customers in high-cost areas at affordable rates. The purpose of the CHCF-B program is to replace the implicit subsidies used to support universal service with an explicit funding mechanism. The CHCF-B is funded through a surcharge on all end-users of intrastate telecommunications services, except for Universal Lifeline Telephone Service (ULTS) customers, coin-sent paid calling, debit card messages, one-way paging, usage charges to COPTs, customers receiving services under existing contracts that were executed on or before September 15, 1994 and directory advertising. The CHCF-B surcharge has been in place since February 1, 1997.

To avoid double recovery of universal service support by carriers, the Commission, by D.96-10-066, requires Verizon and the other ILECs to reduce all of their rates, except for residential basic service<sup>4</sup>, contracts, and coin-sent paid calls, by a percentage (through a monthly surcredit to the customer’s bill), that equals their anticipated monthly CHCF-B draws.

B. D.98-09-039 – Rulemaking on the Commission’s Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643; Investigation on the Commission’s Own Motion into Universal Service and to Comply with the Mandates of Assembly Bill 3643 (R.95-01-020, I.95-01-021.)

In September 1998, the Commission issued D.98-09-039 implementing the CHCF-B program established by D.96-10-066. The Commission authorized Verizon and the other ILECs,<sup>5</sup> to commence their monthly draws from their accumulated CHCF-B surcharge revenues (CHCF-B draws) commencing December 15, 1998. To offset the

---

<sup>3</sup> The other ILECs are AT&T (formerly Pacific Bell, then SBC), Citizens Telecommunications Company of California, and SureWest Telephone Company (formerly Roseville Telephone Company).

<sup>4</sup> Residential basic exchange service is excluded from the rate reduction because the CHCF-B supports this service in high cost areas. The Commission, in D.96-10-066, held “If we were to reduce rates for basic service as well, this would widen, rather than narrow, the gap between residential rates and their costs.” (*Id. at p. 208.*)

<sup>5</sup> AT&T as a result of D.98-07-033, dated September 3, 1998, and subsequently SureWest Telephone Company in D.05-08-004, dated August 25, 2005, implemented permanent rate reductions, which allowed each company to true up its rate reduction with its approved fund draws from the CHCF-B program.

DRAFT

CHCF-B draws, the Commission ordered Verizon and the other ILECs to file an AL to implement a permanent surcredit (by an equal percentage of their CHCF-B draws) beginning December 1, 1998, based on the average of the company's "**approved**" monthly claims submitted to the CHCF-B fund for the twelve-month period ending July 31, 1998. (*D. 98-09-039, Ordering Paragraph (OP) 1, p. 82.*) Once the monthly claims, on which the permanent surcredit would be based, were submitted by Verizon and that other ILECs to TD, the CHCF-B Administrative Committee (AC)<sup>6</sup> was then charged with the duty of reviewing and approving the monthly claims. If material issues arose from the AC's review of the monthly claims, the Commission held that "the surcredit would be implemented on a provisional basis beginning December 1, 1998, and adjusted at a later date, if necessary, upon resolution of these issues." (*Id at OP 3, p. 82, emphasis added.*)

C. Resolution T-16238 – Verizon California Inc. Request to Implement a Permanent California High Cost Fund –B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 8838, Filed on September 21, 1998, and its Supplements A and B, Filed on November 16, 1998 and November 17, 1998, Respectively. (Adopted November 19, 1998.)

In compliance with OP No. 1 of D. 98-09-039, Verizon filed AL No. 8838 to implement a surcredit on intrastate billings to customers beginning December 1, 1998. In Resolution T-16238, the Commission approved, on a provisional basis, Verizon's CHCF-B permanent surcredit of 3.16%, which was based on an estimated amount (approximately \$47.7 Million) for the period of August 1997 through July 1998. This permanent surcredit was adopted on a provisional basis because the CHCF-B AC had not formally approved any of these claims filed by Verizon. (*Id. at p. 3.*) The Commission specifically held that " . . . the implementation of the surcredit filed in Advice Letter 8838 [is] to be on a provisional basis subject to further revision by further Commission action." (*Id.*)

D. October 4, 2001 Director of the Telecommunications Division's Letter to Verizon

On October 4, 2001, the Director of the TD sent a letter to Verizon to notify that the CHCF-B AC had completed its review of Verizon's monthly claims for the period February 1997 through July 1998. Specifically, TD informed Verizon that the CHCF-B AC approved an amount of \$51,078,457 for the 12-month period of August 1997

---

<sup>6</sup> The CHCF-B AC (formerly CHCF-B Trust AC) was previously responsible for reviewing and approving CHCF-B claims by telecommunications carriers, but this function has been transferred to the Commission effective October 1, 2001, pursuant to D.01-09-064, dated September 20, 2001, in response to Legislative mandates (SB 669 and SB 742) to transfer surcharge revenues that fund the public purpose programs associated with the advisory board into the State Treasury. The CHCF-B AC currently acts as an advisory board to advise the Commission regarding the development, implementation and administration of the program, pursuant to PU Code Section 276(a).

DRAFT

through July 1998. This amount was approximately \$3,378,457 more than Verizon's claimed amount, which was \$47.7 million for this period.

Because the CHCF-B AC's approved amount was greater than Verizon's claimed amount, TD instructed Verizon to adjust its provisional permanent rate that was adopted in Resolution T-16238 with the CHCF-B AC's approved amount of \$51,078,456.73. TD further instructed Verizon to file an AL no later than October 30, 2001 to reflect this adjustment.

In response, Verizon filed AL No. 9908 to increase its provisional surcredit rate of 3.16% to a new permanent surcredit of 3.38% on October 29, 2001.

E. Resolution T-17009 – Verizon California Inc. Request to Implement a Permanent California High Cost Fund –B Surcredit in Compliance with Decision 98-09-039. By Advice Letter No. 9908, Filed on October 29, 2001. (Adopted July 20, 2006.)

In Resolution T-17009, the Commission approved Verizon's permanent surcredit of 3.38% to apply on all intrastate billings, except certain services on a going-forward basis. The permanent surcredit was based on the approved CHCF-B AC's claim amount of \$51,078,457 million and the net billing base for the period ending July 1998 (consistent with the basis period indicated in Commission D.98-09-039).

However, in Resolution T-17009, the Commission left unresolved the calculation and application of an incremental permanent surcredit amount (additional offset to Verizon's customers) resulting from the difference between the CHCF-B AC's approved amount and estimated claim amount for the period December 1, 1998 (implementation date of the provisional permanent surcredit) through September 1, 2006 (implementation date of the permanent surcredit). In OP 7 of Resolution T-17009, the Commission stated "In the near future, the Commission shall consider and order final approval and adjustments of Verizon's permanent surcredit in accordance with D.98-09-039." In accordance with this OP, this resolution addresses the calculation and application of Verizon's permanent surcredit adjustment.

F. D.02-04-059 – Order Instituting Rulemaking into Implementation of Senate Bill 669 as it Affects California High Cost Fund B and Other Public Purpose Programs (R.01-08-022).

In D.02-04-059, the Commission adopted the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, beginning with payments processed in the first payment cycle, which was May 1, 2002.

DRAFT

**NOTICE/PROTESTS of ALs**

The notice of Verizon's AL No. 9908 was published in the Commission Daily Calendar on October 30, 2001. Verizon indicated that they mailed a copy of the AL to adjacent utilities and/or interested parties as requested. TD did not receive any protests to this AL.

**DISCUSSION**

In Resolution T-17009, the Commission approved Verizon's request in AL No. 9908 to make its provisional permanent surcredit permanent and ordered Verizon to implement a permanent surcredit of 3.38% on a going-forward basis, commencing September 1, 2006 and continuing thereafter.

In addition, the Commission held that it would resolve the material issue of dispute related to Verizon's application of a surcredit rate for the period between December 1, 1998 and September 1, 2006 as follows:

"In the near future, the Commission shall consider and order final approval and adjustments of Verizon's permanent surcredit in accordance with D.98-09-039. " (OP 7, Resolution T-17009).

In this resolution, the Commission now finally and permanently resolves Verizon's provisional permanent surcredit adjustment in compliance with Decision 98-09-039 and OP 7 of Resolution T-17009.

In D.98-09-039, the Commission set forth the rules and process for the adjustment of Verizon's permanent surcredit. Specifically, in OP 3 of the decision, the Commission ordered:

"The CHCF-B Administrative Committee shall review the CHCF-B claims submitted by Citizens, GTE, Contel and Roseville for the 12-month period ending July 31, 1998 and report its findings to the Director of the Telecommunications Division. If material issues arise from the CHCF-B AC's review of the CHCF-B claims, these companies' permanent surcredits shall be implemented on a provisional basis beginning December 1, 1998 and adjusted at a later date, if necessary, upon the resolution of these issues."

DRAFT

In the decision, the Commission also held that Verizon's permanent surcredit must be based on "actual, approved" claim amount from August 1997 through July 1998 (the subject period.)

In accordance with D.98-09-039, the CHCF-B AC reviewed Verizon's claims and determined that the approved amount is \$51,078,458 (or \$4,236,538 per month) for the subject period. Verizon's estimated claimed amount for the same period is \$47.7 million. Hence, there is a significant difference of approximately \$3,378,457 per year, between the CHCF-B AC's approved amount and Verizon's claimed amount. The net effect of this disparity is that Verizon's customers have been receiving a smaller surcredit than they should have. Failure to adjust this difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated. Thus, it is necessary to offset that difference of \$3,378,457 per year for several years to Verizon' customers in the form of a surcredit to resolve the material issues set forth in Resolution T-17009.

To determine the amount that Verizon should offset to its customers, it is equitable and reasonable to limit the basis for the incremental permanent surcredit calculation to three years<sup>6</sup>. Accordingly, the three year difference, plus interest<sup>7</sup>, amounting to \$9,117,610.72 was divided by Verizon's actual net billing base for the 12-month period ending December 2005. The resulting incremental permanent surcredit is 0.71%. Verizon's billing base has decreased resulting in a billing base that has significant impact in the calculation of the appropriate draw from the CHCF-B and total surcredit for their ratepayers.

Therefore, TD recommends that the Commission order Verizon to implement an incremental permanent surcredit of 0.71% to resolve material issues of dispute. The surcredit will apply on all intrastate billings, except certain services, commencing October 1, 2006 and ending on the last day of the 12-month implementation period. The 0.71% incremental permanent surcredit will be in addition to the 3.38% permanent surcredit approved in Resolution T-17009, which becomes effective on September 1, 2006 and continuing thereafter.

---

<sup>6</sup> Instead of using the total number of years in which the provisional permanent surcredit should have been implemented (December 1, 1998 through the implementation date of Resolution T-17009, which is September 1, 2006), we limit the incremental permanent surcredit calculation to three years to balance ratepayer and shareholder interests.

<sup>7</sup> It is reasonable to include interest onto the difference because this amount has been retained by Verizon for three years which should have accrued interest in a financial institution. The interest was based on the 3-month commercial paper rate issued by financial institutions (available at the Federal Reserve Board website) as the uniform interest rate to apply to all late payments for reimbursements and carrier claims, pursuant to D.02-04-059.

DRAFT

In addition, TD recommends that the Commission order Verizon, within five (5) business days from the effective date of this resolution to (1) file a compliance advice letter to address and adjust the material issues set forth in Resolution T-17009, by reflecting an incremental permanent surcredit of 0.71% for one year to apply on all intrastate billings, except certain services, commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) provide to the Director of TD for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 0.71% incremental permanent surcredit is in addition to the permanent surcredit of 3.38% for one year (pursuant to Resolution T-17009), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.

The Commission believes that TD's recommendations, as discussed in this resolution, are appropriate, reasonable and consistent with prior Commission decisions and resolutions.

**COMMENTS**

In compliance with PU Code Section 311(g), a copy of the Notice of Availability letter of the draft resolution was e-mailed on July 25, 2006 to parties that informed TD of their e-mail address in order to continue to be on the service list of R.95-01-020/I.95-01-021, AT&T, Citizens Telecommunications of California, SureWest Telephone Company, Cox California Telecom, LLC, and CHCF-B AC, informing parties that its draft resolution was available for public viewing and comments at the Commission's website at:

<http://www.cpuc.ca.gov/static/telco/public+programs/index.htm>.

In addition, the TD informed these parties of the availability of the conformed resolution on the website.

Comments filed on a timely basis will be addressed in this Resolution.

**FINDINGS**

1. In Resolution T-17009, issued and adopted on July 20, 2006, the Commission approved Verizon California Inc.'s request in Advice Letter (AL) No. 9908 to implement a California High Cost Fund B (CHCF-B) permanent surcredit of 3.38% to apply on Verizon intrastate billings, except for certain services (residential basic service, coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts, ULTS access lines, installation, billing, and local calls under ULTS allowance, and directory advertising), on a going-forward basis commencing on September 1, 2006 and continuing thereafter.

DRAFT

2. In this resolution, the Commission now finally and permanently resolves Verizon's provisional permanent surcredit adjustment in compliance with Decision 98-09-039 and Ordering Paragraph (OP) 7 of Resolution T-17009.
3. OP 7 of Resolution T-17009 stated "In the near future, the Commission shall consider and order final approval and adjustments of Citizens' permanent surcredit in accordance with D.98-09-039."
4. To comply with OP 7 of Resolution T-17009 and D.98-09-039, this resolution is being issued to resolve the material issues related to Verizon's permanent surcredit resulting from the difference of approximately \$3,378,457 between the CHCF-B AC's approved claim amount and Verizon's estimated claim amount (basis for the provisional permanent surcredit calculation).
5. In OP 3 of D.98-09-039, the Commission provided rules and authority for the adjustment of Verizon's permanent surcredit. The Commission also held that if any material issues arose from the CHCF-B AC's review of the CHCF-B claims, the provisional permanent surcredit would be adjusted at a later date.
6. The CHCF-B AC's approved claim amount is \$51,078,457 and Verizon's estimated claim amount is \$47.7 million for the 12-month period ending July 1998.
7. The approximately \$3,378,457 per year difference for several years is a material amount, which needs to be adjusted. The net effect of this disparity is that Verizon's customers have been receiving a smaller surcredit than they should have.
8. Failure to adjust the \$3,378,457 per year difference would result in a significant harm to ratepayers and would also be inconsistent with the Commission decisions on how the CHCF-B funds are to be utilized and calculated. Thus, it is necessary to offset that difference of \$3,378,457 per year for several years to Verizon's customers in the form of a surcredit to resolve the material issues set forth in Resolution T-17009.
9. OP 7 of Commission D.02-04-059 adopted the three-month commercial paper rate issued by financial institutions (available at Federal Reserve Board website) as the uniform interest rate applicable to late payment of reimbursement and carrier claims, beginning with payments processed in the first payment cycle (which is May 1, 2002).



DRAFT

10. To determine the amount that Verizon should offset to its customers, it is equitable and reasonable to limit the basis for the incremental permanent surcredit calculation to three years.
11. The three year difference, plus interest, amounting to \$9,117,610.72 was divided by Verizon's actual net billing base for the 12-month period ending December 2005. The resulting incremental permanent surcredit is 0.71%.
12. Verizon should implement an incremental permanent surcredit of 0.71% to resolve material issues of dispute. The surcredit will apply on all intrastate billings, except for certain services, commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
13. The 0.71% incremental permanent surcredit will be in addition to the 3.38% permanent surcredit approved in Resolution T-17009, which becomes effective on September 1, 2006 and continuing thereafter.
14. Within five (5) days of the effective date of this resolution, Verizon should be required to file a compliance advice letter to address and adjust the material issues set forth in Resolution T-17009, by reflecting (1) an incremental permanent surcredit of 0.71% for one year to apply on all intrastate billings, except for certain services commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) the incremental permanent surcredit of 0.71% is in addition to the permanent surcredit of 3.38% adopted in Resolution T-17009.
15. Within five (5) days of the effective date of this resolution, Verizon should provide to the Director of TD for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 0.71% incremental permanent surcredit is in addition to the permanent surcredit of 3.38% for one year (pursuant to Resolution T-17009), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
16. The recommendations, as stated in this Resolution, are reasonable and appropriate, and should be adopted.

DRAFT

**THEREFORE, IT IS ORDERED that:**

1. Verizon shall implement an incremental permanent surcredit of 0.71% to resolve material issues of dispute. The surcredit shall apply on all intrastate billings, except for certain services (residential basic service, coin-sent paid calling, debit card messages, one-way radio paging, COPT usage, contracts, ULTS access lines, installation, billing, and local calls under ULTS allowance, and directory advertising), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.
2. The 0.71% incremental permanent surcredit will be in addition to the 3.38% permanent surcredit approved in Resolution T-17009, which becomes effective on September 1, 2006 and continuing thereafter.
3. Within five (5) days of the effective date of this resolution, Verizon shall file a compliance advice letter to address and adjust the material issues set forth in Resolution T-17009, by reflecting (1) an incremental permanent surcredit of 0.71% for one year to apply on all intrastate billings, except residential basic service, contract services, and ULTS commencing October 1, 2006 and ending on the last day of the 12-month implementation period; and (2) the incremental permanent surcredit of 0.71% is in addition to the permanent surcredit of 3.38% adopted in Resolution T-17009.
4. Within five (5) days of the effective date of this resolution, Verizon shall provide to the Director of the Telecommunications Division for review and approval, a copy of the customer notice that will be in the free-form section of the customer bill, explaining that the 0.71% incremental permanent surcredit is in addition to the permanent surcredit of 3.38% for one year (pursuant to Resolution T-17009), commencing October 1, 2006 and ending on the last day of the 12-month implementation period.

DRAFT

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 24, 2006. The following Commissioners approved it:

---

STEVE LARSON  
Executive Director